

Sogemines Limited

AR34

ANNUAL REPORT 1965



Brockville
Chemical



Inland
Cement

Sogemines Limited



Iroquois
Glass

APR 13 1966

APR 19 1966

DIRECTORS

Charles de Bar
Henry Blaise
F. Campbell Cope, Q.C.
W. Leslie Forster, C.B.E.
August A. Franck
Wilbert Harvard Howard, C.B.E., Q.C.
Andre Jadoul
Serge Lambert
W. Earle McLaughlin
Max Nokin
Charles C. Notebaert
Hon. Jean Raymond, Q.C., M.L.C.
Andre de Spirlet
Edgar Van der Straeten
Jules R. Timmins, O.B.E.
C. A. Vandendries
William S. Ziegler

OFFICERS

Wilbert H. Howard	<i>Chairman of the Board</i>
Edgar Van der Straeten	<i>Vice-Chairman of the Board</i>
August A. Franck	<i>President</i>
Charles de Bar	<i>Executive Vice-President</i>
Bernard T. Johnson	<i>Vice-President</i>
Angus A. MacNaughton	<i>Vice-President</i>
Lawrence R. Sinclair	<i>Treasurer</i>
William W. Tinmouth	<i>Secretary</i>

GENERAL COUNSEL

Howard, Cate, Ogilvy, Bishop, Cope,
Porteous & Hansard, Montreal, Quebec

AUDITORS

McDonald, Currie & Co., Montreal, Quebec

TRANSFER AGENT & REGISTRAR

Montreal Trust Company
Montreal, Toronto, Edmonton, Saint John, N.B.,
and Vancouver

STOCK EXCHANGES

Montreal, Toronto, Calgary, Vancouver, Canada
and Antwerp and Brussels, Belgium

HEAD OFFICE

Suite 4105, One Place Ville Marie, Montreal 2, Quebec

Sogemines Limited

DIVISIONS:

INLAND CEMENT

BROCKVILLE CHEMICAL

IROQUOIS GLASS



ISLAND TUG AND BARGE

NEELON STEEL

McALLISTER TOWING

ST. LAWRENCE FERTILIZERS

FRASER COMPANIES

ROTHESAY PAPER

INVESTMENTS:



PLANTS



SALES OFFICES

The Board of Directors is pleased to submit the Annual Report of the Company and its wholly-owned subsidiaries, together with audited Consolidated Financial Statements for the year ended December 31, 1965.

AMALGAMATION

The Company completed a significant amalgamation with its affiliates during 1965 when Brockville Chemicals Limited, Inland Cement Company Limited and Iroquois Glass Limited were merged with Sogemines Limited. Prior to the amalgamation, the Company had a substantial investment in each of the three companies concerned which in future will operate as divisions of Sogemines Limited.

The Company is now primarily an operating organization with plants and offices in five provinces, its products being marketed in all ten; the Company will also continue its investment activity. The map of Canada facing this page shows the location of the Company's five plants and nine sales offices, as well as the Head Office site of companies in which Sogemines has an investment, the total of which represents assets in excess of \$100 millions.

Comments on the operations of the chemical, cement and glass divisions of the Company follow later in this Report.

FINANCIAL RESULTS

The financial results of the Company for the year ended December 31, 1965, include the operating results of Inland Cement, from March 15, 1965 and those of Brockville Chemical and Iroquois Glass from April 30, 1965. The operations of these divisions were assumed by the Company on the above mentioned dates which are the effective dates of the amalgamation. Additional financial and statistical information, combining the four companies amalgamated in 1965, is presented in the Ten-Year Review included with this Report.

The sales and revenues of the Company for 1965 totalled \$30,431,663, including the results of the operations of the divisions only from the effective dates of the amalgamation. Cash earnings for this period amounted to \$7,136,115 (\$1.52 per share) and after depreciation of \$2,972,320, net earnings were \$4,163,795 (89 cents per share).

The sales and revenues of the Company including those of the divisions for the full year 1965 were \$37,149,161, cash earnings amounted to \$8,050,172 (\$1.71 per share) and after depreciation of \$3,752,860, net earnings were \$4,297,312 (91 cents per share). This compares with sales and revenues of \$30,816,491, cash earnings of \$6,601,055 (\$1.40 per share), depreciation of \$3,426,453 and earnings of \$3,174,602 (68 cents per share) for 1964. Sales and revenues increased 21% and net earnings increased 35% over 1964.

The Company has not made a provision for income taxes for the year as sufficient capital cost allowance is available to eliminate any income tax liability. Based on forecasted earnings and the present level of taxation, it is expected that no provision for income taxes will be required for the next few years.

DIVIDEND

The Directors of the Company declared a dividend of 60 cents per common share payable on December 16, 1965. This was the initial distribution to shareholders and totalled \$2,820,843.

LONG-TERM DEBT

During the year, the Company assumed all the debt of Brockville Chemicals Limited, Inland Cement Company Limited and Iroquois Glass Limited; at the year end, the total long-term debt outstanding was \$20,532,500.

CAPITAL STRUCTURE OF THE COMPANY

The capital structure of the Company was reorganized during the course of 1965. Supplementary Letters Patent

were granted authorizing the unification of the capital stock of the Company by changing the authorized 3,750,000 participating preferred shares of \$10 each into 3,750,000 common shares without nominal or par value and by changing the 12,500,000 ordinary shares of the par value of \$1 each into 1,250,000 common shares without nominal or par value; in addition, the capital of the Company was increased by the creation of 3,000,000 additional common shares without nominal or par value so that the authorized capital stock of the Company consists of 8,000,000 common shares without nominal or par value of which 4,701,404 are outstanding. Shares totalling 150,000 have been reserved for employees stock options.

EXPANSION

In the course of 1965, the Company spent \$10,658,000 on additions to its facilities. The greater portion of this amount was used for the construction of a new cement plant in Winnipeg and an addition to the chemical plant at Brockville. A further \$3,700,000 will be required in 1966 to complete the expansion programmes commenced in 1965.

ORGANIZATION

With the completion of the amalgamation, three operating divisions were formed: Brockville Chemical Industries Limited, Inland Cement Industries Limited and Iroquois Glass Industries Limited. The management which operated each of the divisions prior to the amalgamation will continue in that same capacity. The products of each division will continue to be marketed under the trade names which have gained acceptance in their respective fields of activity.

During the coming year, specialized technical departments will be formed at the Company's Head Office. The facilities and information to be prepared and developed by these departments will aid in guiding the Company's new ventures and the expanding activity of the divisions.

Mr. W. H. Howard, C.B.E., Q.C., a member of the Board of Directors since 1951 and Chairman of the Board since April 1959, has indicated that he does not wish to stand for re-election to those positions. Over the years, Mr. Howard has contributed greatly to the continued progress and growth of the Company; his vision and efforts will be sorely missed.

It is intended to nominate Mr. Edward C. Wood, former Chairman and President of Imperial Tobacco Company of Canada Limited, as a Director and Chairman of the Board of the Company.

Mr. W. S. Ziegler was elected to the Board of Directors on April 21, 1965.

Early in 1966, Mr. C. de Bar, a Director and Vice-President of the Company, was appointed Executive Vice-President and Mr. B. T. Johnson, formerly Vice-President of Brockville Chemical Industries Limited, was named a Vice-President.

Mr. L. R. Sinclair, C.A., formerly Secretary-Treasurer of Inland Cement Company Limited, was appointed Treasurer of the Company. Mr. Wm. W. Tinmouth, B.C.L., was appointed Secretary of the Company.

INVESTMENTS

In addition to the manufacturing operations of the Company, investment activity will continue, as in the past, to be of great importance in guiding the Company's future growth; continual close attention will be given to the investment portfolio to ensure its profitable rearrangement and the acquisition of equity securities with good income and growth potential.

THE CANADIAN ECONOMY

Canada experienced in 1965 a year of much activity and prosperity. The economy operated at almost full capacity; the employment scale and the growth rate were

above that which had been regarded as essential by the Economic Council of Canada. This prosperity has been felt throughout the Country, both industrially and regionally.

The Economic Council of Canada was established by the Federal Government at Ottawa as an independent organization whose duty is to advise on the best manner to realize the potential for growth throughout the Country. The Council has stated objectives for the balance of this decade to 1970 as follows: 97% employment; a rate of expansion of employment combined with an increase in productive capacity per person to create a potential growth rate of 5.5% yearly; a moderate rise in consumer and goods and services prices. It is emphasized that accelerated productivity is the key to achieving full prosperity objectives by 1970.

The value of the Economic Council's advice is already apparent as the Government has taken into consideration certain recommendations of the Council. The Council had suggested the creation of a manpower agency, which will match men and jobs increasing manpower resources in such industries as construction, and increased aid to education; Legislation will be introduced during the current Session to implement these recommendations.

During the past year, the Gross National Product increased 9.5% over that of 1964 to an estimated \$51.3 billions from a previous level of \$46.9 billions. Of the \$4.4 billions gained, consumer spending accounted for \$2.1 billions, capital formation \$1.6 billions, inventory accumulation \$400 millions, Government spending \$700 millions and a deduction of \$400 millions was experienced for the increase in the deficit of the international account.

Canada's wheat production in 1965 was greatly in excess of that which is usually absorbed by domestic and traditional foreign customers; large wheat purchases were made by China and the Soviet Union during the course of the year. It is expected that China will continue to make purchases over the next few years.

The increase during 1965 of 7% in industrial production brought it close to capacity; this was mainly in the durable goods sector of manufacturing.

Unemployment decreased to 3.9% of the total labour force, the lowest level in eight years although 250,000 persons were added to that labour force. There is some concern at this time regarding the scarcity of skilled labour force especially in the construction and metal industries. With the rising levels of employment and personal income, consumer spending increased 7.5% in 1965.

Some problems arose in Canadian banking and business circles during the latter part of the year in view of the tightening money situation. The difficulty in obtaining money will undoubtedly have a dampening effect on corporate capital investment programmes during 1966.

THE ECONOMY IN 1966

Economic activity during 1966 is expected to remain at high levels and the rate of increase of the Gross National Product is estimated to be 7.5%. It is expected that the reduced availability of consumer credit will have a

limiting effect on spending, and that consumer prices will rise more than in 1965. There will probably be a higher level of employment during the coming year.

The complete co-operation of all the divisions and their contribution to the accomplishment of the amalgamation is a source of great satisfaction to the Board.

Your Directors express to all personnel their sincere appreciation of their continued loyalty and dedication throughout the past year.

On behalf of the Board of Directors,

A. A. FRANCK
President

4th March 1966

Summary of Canadian Economy

	1963	1964	Preliminary 1965
Gross National Product — \$ billions.....	43	47	51.5
Total Farm Cash Receipts — \$ millions.....	3,200	3,456	3,740
Wheat Production — millions of bushels.....	723	600	678
Primary Steel Production — thousands of tons.....	8,190	9,131	10,070
Motor Vehicle Production — units.....	633,351	668,390	852,290
Total All Minerals — \$ millions.....	3,051	3,388	3,737
Iron Ore “	372	405	422
Nickel “	360	379	435
Copper “	284	324	388
Crude Petroleum “	615	674	718
Natural Gas “	150	173	197
Cement “	119	131	145
Pulp and Paper Production — \$ millions.....	1,700	1,900	2,022
Newsprint Production — thousands of tons.....	6,630	7,301	7,720
Public and Private Capital Investment — \$ millions.....	9,393	10,827	12,846
Housing Starts — units.....	148,624	165,658	166,000
Corporate Dividends — \$ millions.....	960	1,151	1,300
Merchandise Exports — \$ millions.....	6,990	8,304	8,700
Merchandise Imports — \$ millions.....	6,578	7,488	8,400
Deficit on Current Account — \$ millions.....	557	453	1,000

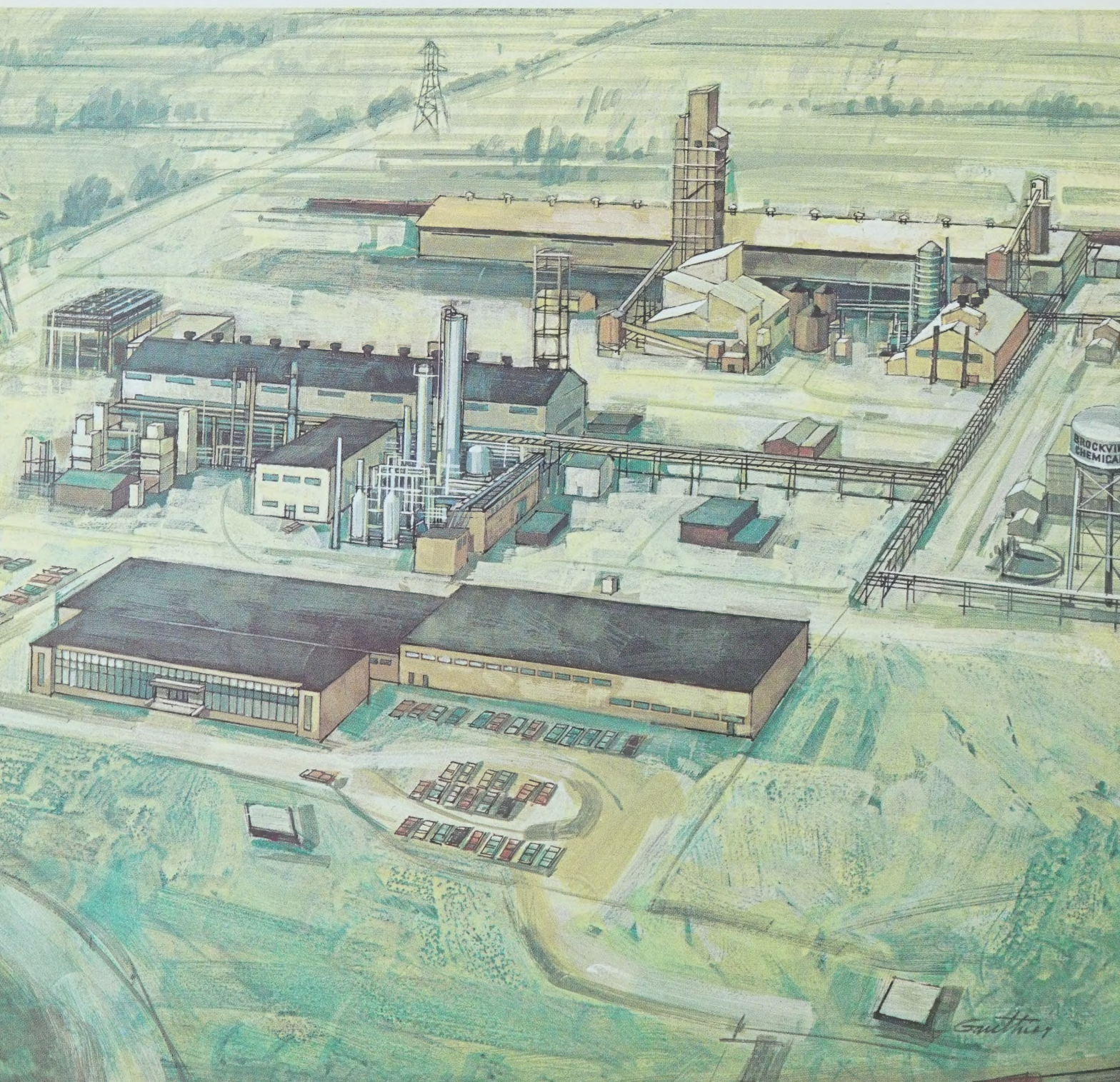


Brockville Chemical

Industries Limited, Maitland, Ontario

Serge Lambert
W. Leslie Forster
C. A. Vandendries
Jean Tixhon
Robert H. Alston

Chairman
Vice-Chairman
President
Vice-President — Production
Secretary-Treasurer





Financial results of the Brockville Chemical division for 1965 show substantial progress over 1964. Sales of all products have reached a new record in tonnage and dollar value.

This can be attributed to the continued growth in demand for fertilizers and to the still increasing interest of the mining industry in the use of ammonium nitrate in blasting operations. The average annual growth rate in consumption of fertilizer nitrogen in Canada from 1959 to 1964 has been 22%. In the same period, growth in Eastern Canada has been about 17.5%.

The plant has operated at almost full capacity in many sections throughout the year without any major mishap. The high and steady rates of production have resulted in an appreciable improvement in costs.

A Urea plant with a production capacity of 50,000 tons per year is under construction. This will add a new fertilizer with a high nitrogen content to the division's line of products.

Various other extensions and expansions of the plant are being built at the present time to provide facilities to meet forecasted sales. The new facilities will require a total investment of \$6.5 millions and will be on stream by mid-1966.

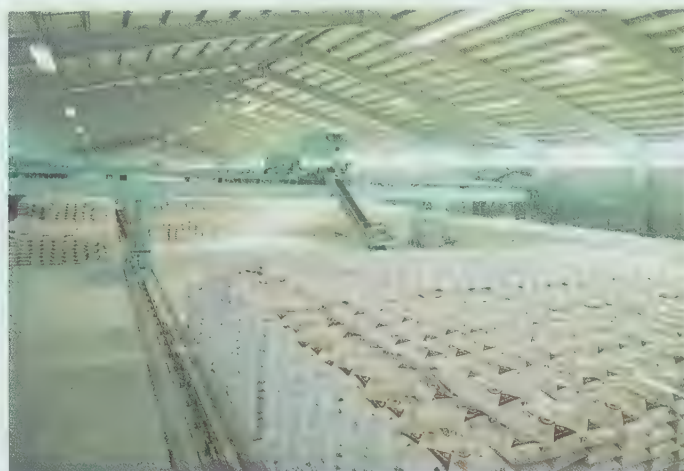
A management contract has been awarded by St. Lawrence Fertilizers Ltd. to Brockville Chemical Industries Limited. The construction of the plant of St. Lawrence Fertilizers Ltd., located in Valleyfield, Quebec, is progressing on schedule.

C. A. VANDENDRIES
President
BROCKVILLE CHEMICAL
INDUSTRIES LIMITED

Illustration at left: Artist's rendering of plant and offices at Brockville.

Top right: Laboratory facilities keep pace with modern-day technological progress.

Right: Warehouse facilities at Brockville store quantities of products ready for shipment to customers.





Inland Cement

Industries Limited, Edmonton, Alberta

Hugh E. Pearson	<i>Chairman</i>
William S. Ziegler	<i>President</i>
D. R. B. McArthur	<i>Executive Vice-President</i>
George Ross	<i>Vice-President — Marketing</i>
Walter S. Bannister	<i>Vice-President — Production</i>
E. John Cuyler	<i>Vice-President — Planning and Development</i>
R. J. Zimmer	<i>Secretary-Treasurer</i>





Earnings of the Inland Cement division were considerably higher than in the previous year although substantial additional costs of a non-recurring nature were incurred during the year.

In Inland's market area, construction contract awards exceeded the 1964 level by 14%. Slight reductions in the residential and engineering categories were more than offset by a substantial increase in non-residential and industrial building construction.

Inland is participating fully in this expanded construction activity. Sales for the year were substantially greater than in 1964 and reached the highest level in the history of the company. Promotional efforts to extend the use of cement and concrete products received continuing emphasis.

Inland's new cement plant at Winnipeg was completed during the year. The new plant is very modern in design and concept and it employs a wide range of concrete products. The plant has a high degree of centralized control and features many of the latest cement plant developments including closed circuit television and X-ray chemical analysis equipment. By year-end the new plant had reached expectations in regard to production rates and quality of product.

The plants at Edmonton and Regina and related quarries operated satisfactorily over the year. These production facilities were more fully utilized than originally planned

due to a delay in completion of the Winnipeg plant and the resultant necessity to supply the Manitoba market from these sources.

The capital expenditure programme for the year, in addition to the completion of the Winnipeg plant, included a number of production facility improvements and necessary equipment replacements. Particular emphasis was placed on the provision of capital improvements required to offset the continuing trend of rising operating costs.

The Edmonton plant again completed the year without a lost-time accident.

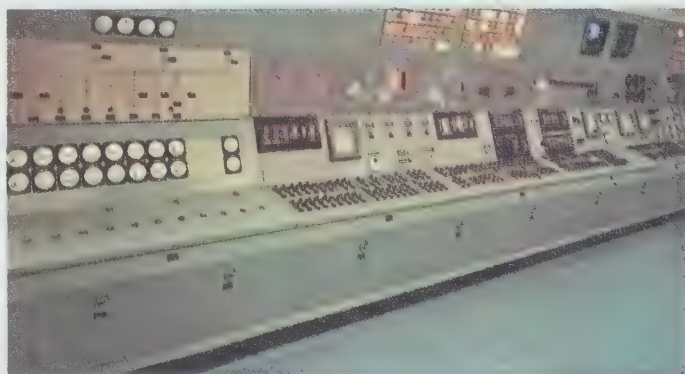
Inland continues to maintain an optimistic outlook for the future. There are many signs to indicate that construction activity in Western Canada will move to even higher levels. Inland expects to enjoy further increases in sales volume and improved profits during the coming year.

WILLIAM S. ZIEGLER
President
INLAND CEMENT
INDUSTRIES LIMITED

Illustration at left: Plant and offices of Inland Cement located at Edmonton, Alberta.

Top right: City Hall at Red Deer, Alta., used reinforced concrete in construction.

Right: The control panel at Inland Cement's new plant which opened September 1965 at Winnipeg, Manitoba.





Iroquois Glass

Industries Limited, Candiatic, Quebec

Léon Simard
C. A. Vandendries
Pierre Andry
John K. E. Pelton

Chairman
President
Executive Vice-President
Secretary-Treasurer





During the course of the past year a \$700,000 programme was completed increasing storage facilities and adding the eighth production line at the Iroquois plant. The new production line was brought into operation during the month of April. The total output during the last eight months of 1965 was maintained at a level very close to maximum capacity.

Iroquois' Applied Colour Lettering Department had an active year. Sales of glass containers requiring such lettering increased 30% over previous years.

Sales, which during the first six months of the year maintained forecast levels, declined during July and August as a result of inclement weather. As the year closed, large shipments of finished goods which had been previously ordered were forwarded to customers and, as a consequence, sales forecasts were exceeded.

Sales activity was especially brisk in the soft drink and alcoholic beverage containers market.

Constant efforts are being made to accelerate sales even further. At the present time, the division maintains two sales offices, one in Montreal and the other in Toronto.

During the course of the past year, Iroquois made an especially strong impression on the glass market in the Maritime Provinces. It is intended to continue concentrated activity in that area in order to consolidate Iroquois' position and further enhance sales.

C. A. VANDENDRIES

President

IROQUOIS GLASS
INDUSTRIES LIMITED

Illustration at left: Plant and warehouse facilities of Iroquois Glass at Candiag.

Top right: Bottles being readied for shipment to customers.

Right: Iroquois Glass manufactures glass containers for the customers whose bottled products are shown.



ROTHESAY PAPER CORPORATION

The company's mill at Saint John, New Brunswick, commenced operations in January of 1965 but, due to a succession of technical problems, it was not possible to achieve the budgeted rate of production. Nevertheless, nine cargoes of newsprint paper were shipped to Germany and the balance of the production went to supply commitments under the company's long-term contracts in the U.S.A. The loss of production, due to the above-mentioned difficulties, resulted in the company's suffering a loss in its first year of operations. The special efforts made to eliminate the technical difficulties have resulted in a marked increase of production in the first weeks of 1966 and it is expected that operations will be profitable this year. The demand for newsprint paper is, and is likely to remain, strong.

FRASER COMPANIES, LIMITED

As a result of Sogemines' interest in the pulp and paper industry, one of the largest in Canada, an investment has been made in the shares of Fraser Companies, Limited.

That company, with mills at Edmundston, Newcastle, and Atholville, New Brunswick, and Madawaska, Maine, is engaged in the manufacture of sulphite and groundwood specialty papers, chemical wood pulps, groundwood pulp, paperboard and lumber products. A major expansion of the Newcastle pulp mill, estimated to cost \$24 millions and expected to be completed early this year, will increase capacity of kraft pulp from 215 tons to 500 tons per day.

The company reported net earnings of \$2.44 per share for the twelve months ended December 31, 1965 compared with \$2.25 for the similar period in 1964. Dividends for 1965 totalled \$1.40 a share.



Brunswick Mining and Smelting Corporation Limited

In its first full year of operations this company made a substantial net profit. Earnings were \$1.52 a share and it is expected this trend will continue. East Coast Smelting & Chemical Co., a wholly-owned subsidiary, is expected to commence operations at its lead and zinc smelter by mid-1966.

Rio Algom Mines Limited, Preston Mines Limited

Both companies paid dividends in 1965, Rio Algom,

McALLISTER TOWING LTD. (and its wholly-owned subsidiary, Island Tug & Barge Limited)

With the addition of new barges and scows and other new equipment over the past several years, the company during 1965 commenced to realize the expected profits from this new investment. Results on both the West Coast and on the St. Lawrence River have shown a substantial improvement over those of the previous years.

The company successfully negotiated a long-term loan with a lending institution which will ensure the availability of funds to continue its modernization and expansion programmes, most particularly on the West Coast. Much additional activity is expected on the West Coast as a result of the large construction programme being carried on in the pulp and paper industry.

With increased earnings, the company declared in December its first dividend of 30 cents per common share.

ST. LAWRENCE FERTILIZERS LTD.

Sogemines, along with three other partners, has a substantial interest in this new phosphate fertilizer company. The Brockville Chemical division has obtained a contract to manage this plant as well as to sell its products. Construction of the plant is proceeding at Valleyfield, Quebec, with the expectation that production of fertilizers will commence in September of 1966.

EASTERN ELECTRO-CASTING COMPANY LIMITED (and its wholly-owned subsidiary, Neelon Steel Limited)

Sales increased during 1965 over those of the previous year. However, the company suffered a decline in profits because of higher material costs. It is hoped this situation will be remedied in 1966 so that increased profits will result from higher sales.

40 cents a share and Preston Mines, 28 cents a share. Production at two new ore processing plants, one in Northern Saskatchewan and the other in Northern Quebec, commenced during the year.

Candiac Development Corporation

The net profit of this company for 1965 rose sharply over that of the previous year. A prominent construction company has started a promotional campaign to accelerate interest in the industrial park at Candiac.

16th February 1966

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Sogemines Limited and its wholly-owned subsidiary companies as at 31st December 1965 and the consolidated statements of earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, an additional amount of \$696,332 is required to make full provision for the parent company's share of the losses, since acquisition, of the subsidiary company whose accounts are not included in the consolidation.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and retained earnings, when read in conjunction with the notes thereto, present fairly the consolidated financial position of the companies as at 31st December 1965 and the consolidated results of their operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co.

CHARTERED ACCOUNTANTS

Sogemines Limited

and its wholly-owned subsidiary companies

CONSOLIDATED BALANCE SHEET as at 31st December 1965

ASSETS

CURRENT ASSETS

Accounts receivable.....	5,655,612	
Inventories (note 6).....	4,359,133	
Prepaid expenses.....	<u>206,841</u>	10,221,586

INVESTMENTS

Marketable securities — at cost (quoted value \$14,702,568).....	11,606,403	
Other securities — at cost.....	6,046,939	
Investment in partly-owned subsidiary — Notes — at cost less provision for operating losses.....	679,750	
Shares — at cost.....	49,050	
Participations in real estate (note 6).....	<u>1,723,468</u>	20,105,610

FIXED ASSETS

Land, buildings, machinery and equipment (note 2).....	73,544,750	
Accumulated depreciation.....	<u>2,967,167</u>	<u>70,577,583</u>
		<u>\$100,904,779</u>

LIABILITIES

CURRENT LIABILITIES

Bank advances.....	3,056,998	
Accounts payable and accrued liabilities.....	4,804,266	
Deposits held for associated companies.....	489,000	
Unredeemed dividend coupons.....	<u>375,703</u>	8,725,967

LONG-TERM DEBT (note 3).....		<u>20,532,500</u>
		<u>29,258,467</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 4)

Authorized —	
8,000,000 common shares without nominal or par value	
Issued and outstanding —	
4,701,404 shares.....	60,310,822

CONTRIBUTED SURPLUS.....	5,855,917
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RETAINED EARNINGS.....	<u>5,479,573</u>	<u>71,646,312</u>
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\$100,904,779

A. A. FRANCK, *Director*

Signed on behalf of the Board:

F. CAMPBELL COPE, *Director*

Sogemines Limited

and its wholly-owned subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS for the year ended 31st December 1965

	1964 \$	Comparative (note 1) 1965 \$	Actual (note 1) 1965 \$
SALES.....	29,937,384	36,339,003	29,575,201
INCOME FROM INVESTMENTS.....	879,107	810,158	856,462
	<u>30,816,491</u>	<u>37,149,161</u>	<u>30,431,663</u>
COST OF SALES, INCLUDING SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	23,071,354	27,774,793	22,264,059
	<u>7,745,137</u>	<u>9,374,368</u>	<u>8,167,604</u>
INTEREST ON LONG-TERM DEBT.....	1,144,082	1,324,196	1,031,489
DEPRECIATION.....	3,426,453	3,752,860	2,972,320
	<u>4,570,535</u>	<u>5,077,056</u>	<u>4,003,809</u>
NET EARNINGS FOR THE YEAR (notes 5 and 6) ..	<u>3,174,602</u>	<u>4,297,312</u>	<u>4,163,795</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS for the year ended 31st December 1965

BALANCE AT 31st DECEMBER 1964

Retained earnings.....	3,991,400	
Net gain on sales of investments.....	643,854	4,635,254
Add: Net earnings for the year.....		<u>4,163,795</u>
Deduct: Amalgamation expenses.....	336,209	8,799,049
Financing expenses.....	162,424	
Dividend.....	<u>2,820,843</u>	<u>3,319,476</u>
BALANCE AT 31st DECEMBER 1965.....		<u>\$5,479,573</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the year ended 31st December 1965

1. Amalgamation

During the year, the company acquired all the assets and assumed all the liabilities of Brockville Chemicals Limited, Inland Cement Company Limited and Iroquois Glass Limited through newly formed subsidiaries. The effective dates of these acquisitions were 30th April 1965 in the case of Brockville Chemicals Limited and Iroquois Glass Limited and 15th March 1965 in the case of Inland Cement Company Limited. The consolidated statement of earnings reflects the actual results of the operations of the company for the full year, including the results of the operations, from the effective dates to 31st December 1965, formerly carried on by the vendor companies.

The comparative figures shown in the consolidated statement of earnings are the consolidated results of the operations of Sogemines Limited for the year 1965 combined with the results of the operations of the vendor companies from 1st January 1965 to the effective dates and the combined results of the operations of these same companies for the year 1964.

2. Fixed Assets

Fixed assets are stated at cost except that an amount has been included which represents the difference between the cost of the company's investments in the new subsidiary companies referred to in note 1 and the stated value of the net tangible assets represented by the investments. In respect of the fixed assets acquired in the amalgamation referred to in note 1, depreciation of \$16,615,438 had accumulated in the accounts of the vendor companies prior to the sale of these assets on the effective dates. Subsequently, \$9,121,150 of new fixed assets were acquired by the company.

3. Long-Term Debt

5% % First Mortgage Sinking Fund Bonds Series A due 1984	4,500,000
6% % First Mortgage Sinking Fund Bonds Series B due 1975	5,520,000
6% % First Mortgage Sinking Fund Bonds Series C due 1980	4,500,000
5% % Bank Loan, payable in annual instalments to 1972	3,500,000
6% Note, payable in annual instalments to 1972	1,312,500
5.29% Note, payable in annual instalments to 1970	1,200,000
	<u>\$20,532,500</u>

Payments required in the next five years to meet debt instalments and sinking fund provisions are: 1966 \$1,417,500; 1967 and 1968 \$1,537,500; 1969 \$1,762,500 and 1970 \$2,002,500.

4. Capital Stock

As confirmed by Supplementary Letters Patent dated 9th September 1965:

(a) the authorized capital of the company, consisting of preferred and ordinary shares, was unified into one class of new common shares without nominal or par value, on the basis of one new common share for each existing preferred share and one new common share for each ten existing ordinary shares, and

(b) the authorized capital of the company was increased to 8,000,000 new common shares without nominal or par value.

Changes during the year in the issued capital stock of the company were as follows:

	Common shares	Amount
(a) 1,730,163 6% participating preferred shares of \$10 par value were converted to common shares	1,730,163	17,301,630
(b) 3,118,875 ordinary shares of \$1 par value were converted to common shares	311,887	3,118,875
(c) 3,465,505 common shares were issued at \$15 per share as part payment for assets acquired	3,465,505	51,982,582
Issued and fully paid	5,507,555	72,403,087
(d) 806,151 common shares were received by the company as a result of its shareholdings in Brockville Chemicals Limited, Inland Cement Company Limited and Iroquois Glass Limited	806,151	12,092,265
	<u>4,701,404</u>	<u>\$60,310,822</u>

The company has reserved 150,000 of its common shares for a share option plan for its employees. Options are granted at a price which is not less than 90% of the last recorded sale of shares at the time of granting and expire not later than 31st March, 1975. During the year, options to purchase 32,000 shares were granted to employees who were either officers or directors and options to purchase 18,000 shares to other employees. Of the shares optioned, 23,900 may be purchased on or after 1st December, 1965 and 6,525 on or after 1st December in each year from 1966 to 1969 inclusive.

5. Income Taxes

The company intends to claim for income tax purposes capital cost allowance which is in excess of the depreciation recorded in the accounts and, as a result, taxes on income for the year which would have amounted to \$1,868,000 have been eliminated. The total of such reductions to date is \$2,093,000.

An amount of \$15,499,000 included in fixed assets will not be available as capital cost allowance for income tax purposes.

6. Additional Statutory Information

Inventories have been valued at the lower of cost and either replacement cost or net realizable value.

Participations in real estate are valued at cost except for one which includes provision for profits or losses and withdrawals.

Remuneration paid to directors during 1965 as directors and officers of the companies totalled \$213,200.

It has been the policy of the company to include in its consolidated accounts only the accounts of companies which are wholly-owned subsidiaries. With respect to the partly-owned subsidiary, the company has provided \$54,437 in 1965 for its share of the loss for the year ended 31st December 1965 and \$449,594 to date. The company's share of the losses to date is \$1,145,926 and is \$89,228 for the year ended 31st December 1965.

The company's contractual commitments in respect of construction in progress as at 31st December 1965 were \$3,700,000.

Ten-Year Review

1965 1964 1963 1962 1961 1960 1959 1958 1957 1956

(Except for values per shares and number of employees all figures are stated in thousands)

EARNINGS

Sales and Revenues.....	\$37,149	30,816	29,100	29,070	19,178	15,613	13,372	13,208	9,120	3,340
Cash Earnings.....	\$ 8,050	6,601	5,500	5,904	3,837	2,022	2,313	3,125	1,321	638
Depreciation.....	\$ 3,753	3,427	3,366	3,189	1,753	1,414	1,160	1,174	617	223
Income Taxes Paid.....	\$ —	7	1,168	20	40	5	185	20	46	15
Net Earnings.....	\$ 4,297	3,174	2,134	2,715	2,084	608	1,153	1,951	704	415

DIVIDENDS PAID.....	\$ 2,821	1,137	1,137	1,137	852	852	815	—	—	—
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VALUES PER SHARE

Net Earnings.....	\$.91	.68	.45	.58	.44	.13	.29	.58	.21	.16
Cash Flow.....	\$ 1.71	1.40	1.17	1.26	.82	.44	.59	.92	.39	.25
Dividends.....	\$.60	.24	.24	.24	.18	.18	.21	—	—	—
Book Value.....	\$ 15.24	14.63	14.11	13.92	13.55	13.21	12.56	12.28	11.74	10.58

OTHERS

Expenditures on Fixed Assets	\$10,658	10,606	2,166	955	10,591	16,269	7,781	335	11,469	12,745
Long-Term Investments.....	\$20,106	18,082	17,711	13,932	11,713	12,788	12,139	13,449	11,378	9,746
Long-Term Debt Outstanding	\$20,532	22,163	17,033	17,653	14,853	12,353	4,764	7,605	8,327	3,500
Total Shareholders' Equity...	\$71,646	68,804	66,413	65,428	63,796	61,409	49,253	41,498	39,659	26,808
Number Shares Outstanding.	4,701	4,701	4,706	4,698	4,707	4,648	3,921	3,380	3,379	2,533
Number of Employees	1,148	989	1,021	959	898	611	545	370	333	192

The above comparative figures combine the four companies which were amalgamated in 1965 and eliminate inter-company transactions. The share exchange ratio of the amalgamation has been applied in each year. The dividend paid in 1965 was the initial dividend paid by Sogemines; the dividends prior to 1965 were paid by one of the other companies amalgamated.

DIVISIONS

Brockville Chemical

Industrial chemicals and fertilizer materials, including ammonia, ammonium nitrate, nitrogen solutions, nitric acid and industrial gases (nitrogen and hydrogen).

Main Office Maitland, Ontario

Plant Maitland, Ontario

Sales Office Maitland, Ontario

Inland Cement

Normal portland cement, oil well cement, high early strength cement, masonry cement, sulphate resistant cement.

Main Office 156th & 125th Ave., Edmonton, Alberta

Plants Edmonton, Regina and Winnipeg

Sales Offices Edmonton, Calgary, Regina, Saskatoon, Winnipeg and Brandon

Iroquois Glass

Glass bottles and jars and other containers in flint, green and amber glass for use in the food packaging, dairy, carbonated beverages, brewery, distillery, pharmaceutical and chemical industries.

Main Office 85 North Montcalm Blvd. Candiac, Quebec

Plant Candiac, Quebec

Sales Offices Candiac, Quebec, and Toronto, Ontario

INVESTMENTS

Rothesay Paper Corporation

Newsprint.

Fraser Companies, Limited

Manufactures directly or through its subsidiary sulphite and groundwood specialty papers, chemical wood pulps, groundwood pulp, paperboard and lumber products.

McAllister Towing Ltd.

(Island Tug & Barge Limited)

Marine towing, transportation and salvage in Port of Montreal, St. Lawrence River, St. Lawrence Seaway and the Great Lakes; Ports of Vancouver and Victoria, the Pacific coastal waters and the Northern Pacific areas.

St. Lawrence Fertilizers Ltd.

Will manufacture triple superphosphate, phosphoric acid and ammonia phosphate chemical fertilizers used in preparation of complex fertilizers.

Neelon Steel Limited

Manufactures cast grinding balls for mining and cement industries.

